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# Key Debtor LDCs: Medium-Term Outlook for Export Growth and Import Capacity

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A Research Paper

State Dept. review completed

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# **Key Debtor LDCs: Medium-Term Outlook for Export Growth and Import Capacity**

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**A Research Paper**

This paper was prepared by [redacted]  
Office of Global Issues. Comments and queries are  
welcome and may be directed to the Chief, Interna-  
tional Trade Branch, Economics Division, OGI, on  
[redacted]

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**Key Debtor LDCs: Medium-Term  
Outlook for Export Growth  
and Import Capacity** [redacted]

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**Summary***Information available  
as of 15 July 1985  
was used in this report.*

Given this year's dismal export performance by key debtors, and our assessment of their export and import prospects for the rest of the decade, we are not optimistic that most of these countries will achieve anything more than a modest economic recovery. Our analysis indicates that the growth of export earnings will average only about 8 percent per year during 1986-90, which, when coupled with debt service payments and constraints on new borrowing, is likely to hold down import growth and real GNP gains. [redacted]

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We are especially concerned about oil-exporting debtors, such as Mexico and Nigeria, whose bleak oil export prospects almost certainly will limit future import growth and diminish any hopes for sustained economic recovery. Colombia, Malaysia, and the Philippines are likely to record solid export increases, but high or fast-rising debt service payments will curb potential import gains. Debtors such as Argentina and Brazil have the potential to achieve strong export growth and—assuming moderate debt service increases—could substantially boost real imports, raising chances for sustained economic growth and the survival of democracy in both countries. However, even in those nations where the potential for recovery is good, deterioration in the sociopolitical environment would considerably lower their odds for achieving it. [redacted]

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In our judgment, a recession in developed countries would have severe consequences for several key debtors. We estimate that a recession would cut average annual export growth during 1986-90 for the group of key debtors by 1 percentage point, reducing import capacity and lowering potential real GNP gains. Nonoil exporters with already poor import prospects, such as Colombia and the Philippines, would be hard hit by a recession. Oil exporters with large nonoil export sectors, such as Indonesia and Malaysia, could also see a significant reduction in future real GNP growth. Countries with strong export and import prospects, such as Argentina and Brazil, would likely be less affected by a recession, since the growth of import capacity might still be sufficient to support solid, though slower, real income gains. [redacted]

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The fragile outlook for sustained recovery among key debtors is likely to pose a policy dilemma for the United States. If US economic growth continues to slow, Washington probably will face increased pressure from key debtors—particularly Mexico—to maintain high GNP growth, restrain US protectionist pressures, and continue to boost imports. However, such policies run the risk of reigniting inflation and further increasing the huge trade deficit, leading to greater pressure for import restrictions from domestic industries. In our judgment, this dilemma is likely to persist through the rest of the 1980s.

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## Key Debtor LDCs: Medium-Term Outlook for Export Growth and Import Capacity

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### Introduction

Over the next several years, two areas will be crucial to LDC medium-term economic prospects and the associated ability to maintain domestic political support. One important area—the ability of key debtors to stimulate domestic investment activity

This research paper examines the second determinant of success for these countries: their ability to increase export earnings and to remove the foreign exchange constraint on their imports.

The significance of exports and imports to these countries' economic success is illustrated by trends of the past three years. For a group of 12 key debtors,<sup>1</sup> the period of severe financial crisis in 1982-83 was largely a result of an 11-percent drop in export earnings, a reversal from the average annual 21-percent gain achieved during the 1970s (figure 2). The reduction in earnings forced most key debtors to take drastic austerity measures. During the period of crisis, imports for the group plunged 32 percent, with some countries, such as Argentina, Chile, and Mexico, recording declines of more than 50 percent. These import cutbacks, while crucial to improvement in key debtor financial problems, combined with other austerity measures and the drop in export earnings to produce a 2-percent decline in real GNP between 1981 and 1983. This was a sharp turnaround from the 6-percent average yearly gain recorded during the 1970s.

Last year, however, these countries recorded a relatively strong trade performance. A sharp increase in the OECD real GNP growth rate—primarily because of a surge in US economic growth—increased import demand by developing countries, boosting key debtor

<sup>1</sup> The group includes Argentina, Bolivia, Brazil, Chile, Colombia, Indonesia, Malaysia, Mexico, Nigeria, Peru, the Philippines, and Venezuela.

**Figure 1**

### Key LDC Debtors: Outlook for Exports, Imports, and Economic Growth, 1986-90

|                      | ● Strong                          | ○ Moderate                        | ● Weak                       |
|----------------------|-----------------------------------|-----------------------------------|------------------------------|
|                      | Potential Growth of Export Volume | Potential Growth of Import Volume | Potential Growth of Real GNP |
| Argentina            | ○                                 | ●                                 | ○                            |
| Bolivia <sup>a</sup> | ●                                 | ●                                 | ●                            |
| Brazil               | ●                                 | ●                                 | ●                            |
| Chile                | ○                                 | ●                                 | ○                            |
| Colombia             | ●                                 | ●                                 | ○                            |
| Indonesia            | ○                                 | ○                                 | ○                            |
| Malaysia             | ○                                 | ●                                 | ○                            |
| Mexico               | ○                                 | ●                                 | ●                            |
| Nigeria              | ○                                 | ●                                 | ●                            |
| Peru                 | ○                                 | ○                                 | ○                            |
| Philippines          | ○                                 | ○                                 | ●                            |
| Venezuela            | ○                                 | ○                                 | ○                            |

<sup>a</sup> Bolivian prospects for exports, imports, and economic growth depend on resolution of the country's towering political and economic problems. If stability is restored, the outlook for exports, imports, and real GNP growth appear relatively good. Should stability remain elusive, prospects for recovery will be poor.

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export earnings 10 percent. The United States alone accounted for nearly half of the export gain. Key debtor imports bottomed out in 1984 as higher export earnings temporarily eased debt pressures; several countries even increased imports in an effort to boost flagging economic growth and slow the fall in living standards. We estimate real GNP for the group of

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debtors rose 4 percent last year—a considerable improvement over the 1-percent decline recorded in 1983—in part because of the improved trade performance.

### Stagnant Exports in 1985

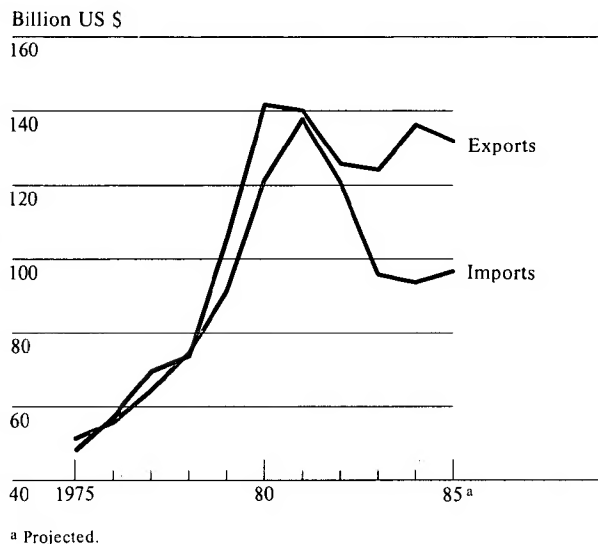
The robust export performance of 1984, however, is turning into a year of stagnation in 1985. First-quarter 1985 data and our predictions for the full year suggest that export earnings for the countries we examined in this paper will decline 3 percent this year. Three major factors are contributing to this decline:

- Slowing growth of OECD real GNP is reducing the growth of import demand in developed countries. The slowdown is most evident in the United States; preliminary first-half 1985 data indicate an overall US growth rate of under 3 percent this year, compared to nearly 7 percent last year.
- Declining oil prices, the result of overproduction and falling demand, are slicing export earnings for the oil-exporting LDCs. In the first half of 1985, spot prices fell an average of about \$1 per barrel, compared to the same period in 1984, with prospects for continued weakness over the balance of this year.
- Falling prices for LDC nonoil exports, because of weakening demand and high stocks of goods, are damaging export prospects for the non-oil-exporting key debtors. IMF data indicate that commodity prices for foodstuffs, raw materials, and metals in the first quarter of 1985 averaged 10 to 15 percent below year-earlier levels. Although a modest recovery is expected in the second half of this year, a 2-percent drop in export prices for the full year is possible.

Other factors contributing to the decline in export revenue include real exchange rate appreciation and loss of incentives, such as export financing in Brazil.

Individual prospects vary widely depending on the mix of export goods (table 1), but, for the nonoil

**Figure 2**  
**Key Debtor LDCs: Trends in**  
**Exports and Imports, 1975-85**



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exporters as a group, we expect export earnings will fall nearly 2 percent, compared to last year's strong 14-percent gain. Preliminary data indicate many non-oil exporters suffered export losses in the first quarter of this year, compared to the same period last year (table 2), and our estimates suggest that Bolivia, Brazil, Peru, and the Philippines will suffer export declines for the full year. Chile and Colombia are likely to post better export performances than in 1984; Chilean copper output should continue to rise while production costs remain lower than world prices, and stronger coal and coffee sales should boost Colombian exports.

Preliminary figures also indicate falling export earnings for most oil-exporting key debtors. Mexico has been hard hit, with both oil and nonoil exports declining in the first three months of 1985, and Venezuelan oil export volume has fallen sharply. Indonesia and Malaysia, countries with significant

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**Table 1**  
**Key Debtor Exports 1984-85**

|              | Billion US \$ |                   | Change in<br>1985<br>(percent) | Comments  |
|--------------|---------------|-------------------|--------------------------------|---|
|              | 1984          | 1985 <sup>a</sup> |                                |   |
| <b>Total</b> | <b>135.9</b>  | <b>131.7</b>      | <b>-3</b>                      |   |
| Argentina    | 8.1           | 8.4               | 4                              | Grain export earnings likely to be hindered by weak prices and fierce competition; beef exports could be hindered by growth of subsidized EC sales.               |
| Bolivia      | 0.7           | 0.6               | -14                            | La Paz faces a myriad of economic problems.   |
| Brazil       | 26.9          | 26.0              | -3                             | Commodity sales likely to stagnate and manufactures exports probably will decline.  |
| Chile        | 3.7           | 4.0               | 8                              | Should benefit from improved prospects for copper and iron ore; we expect copper production to rise 2 to 6 percent.   |
| Colombia     | 3.0           | 3.2               | 7                              | Foreign coal sales should rise; IBRD projects coffee export volume to jump 6 percent.   |
| Indonesia    | 17.3          | 18.2              | 5                              | Nonoil exports expected to show a healthy increase, partly because government policy remains committed to boosting nonoil sales.                                  |
| Malaysia     | 16.3          | 16.5              | 1                              | Foreign sales gain due to higher nonoil exports; oil sales expected to decline.   |
| Mexico       | 24.1          | 22.5              | -7                             | Sharp reduction in US real GNP growth rate, along with the overvalued peso, will lead to a drop in manufactures exports. Oil export earnings continue to decline. |
| Nigeria      | 11.3          | 10.8              | -4                             | Foreign petroleum sales will decline; nonoil exports remain insignificant.  |
| Peru         | 3.2           | 3.1               | -1                             | Country remains plagued by weak prices for traditional exports, lack of export financing, and effects of past natural disasters.                                  |
| Philippines  | 5.4           | 4.9               | -9                             | Export prospects damaged by weak prices for sugar and coconut products, as well as the slump in the electronics industry.   |
| Venezuela    | 15.9          | 13.5              | -15                            | Oil exports expected to decline further this year.  |

<sup>a</sup> Estimated.

nonoil export sectors, are the only oil exporters in the group expected to post foreign sales gains this year.

We are not sure how debtor countries will deal with this unexpected export stagnation. First-quarter data and Embassy reports indicate that Mexico is using up foreign exchange reserves to allow imports to rise, despite lower exports. Colombia is also likely to draw on reserve holdings this year. Other key debtors, such as Brazil and the Philippines, have reduced imports, compared to the same period last year, according to preliminary data. For the full year, our analysis indicates that the group could record a 3-percent import gain, funded by a halt in the buildup of foreign reserves.

#### Mixed Export Outlook for the Future

Beyond this year, the outlook for exports for the group as a whole should substantially improve as a result of a marked turnaround in certain factors that are causing exports to fall this year:

- Despite recent losses, the continued strength of the dollar against major industrial countries' currencies is holding down the demand for dollar-priced imports by developed countries this year.<sup>2</sup> Private forecasters, such as Wharton and DRI, however,

<sup>2</sup> Most key debtor nonoil exports are dollar priced.

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**Table 2**  
**Selected Key Debtor Exports:**  
**First Quarter 1984 and 1985**

Billion US \$

|                        | 1984 | 1985 | Change<br>(percent) |
|------------------------|------|------|---------------------|
| Argentina <sup>a</sup> | 0.66 | 0.62 | -6                  |
| Brazil                 | 5.63 | 5.07 | -10                 |
| Chile                  | 0.97 | 0.92 | -5                  |
| Colombia               | 0.55 | 0.63 | +14                 |
| Mexico                 | 6.39 | 5.69 | -11                 |
| Peru                   | 0.72 | 0.69 | -4                  |
| Philippines            | 1.27 | 1.15 | -9                  |

<sup>a</sup> Data for the month of January only.

indicate the dollar should depreciate substantially during the rest of the decade, increasing the demand for imports by the industrial countries.

- Existing stocks of many commodities, such as copper, sugar, and coffee, are being drawn down this year, depressing export prices and retarding the growth of key debtor export earnings. We believe stocks will return to more normal levels by 1986-87, allowing these countries to increase export volume and prices, although not as rapidly as during the 1970s. Following a 2-percent drop this year, we forecast nonoil export prices to rise nearly 4 percent per year, on average, over the rest of the decade.

- In contrast to the \$1- to \$2-barrel decline in oil prices likely this year, we project stable prices after 1986, as expected dollar depreciation and continued moderate economic growth boost demand. Although growth of oil export earnings over the 1986-90 period probably will be modest—3 percent per year on average—it will be a considerable improvement over the 8-percent drop we expect in 1985. Of course, if oil prices collapse, oil exporters will face steep revenue losses, substantially reducing overall export gains.

Taking all these factors into account, our assessment of key debtor exports over the 1986-90 period indicates foreign sales gains of 8 percent per year under

### **The Role of the US Dollar in Key Debtor Export Growth**

*With the majority of key debtor exports priced in dollars, the value of the dollar plays a central role in export growth. When the dollar is appreciating in real terms against major industrial country currencies, as has been the case since 1980, dollar-priced goods become relatively more expensive in these countries, reducing demand and holding down export prices. On the other hand, when the dollar is depreciating in real terms against OECD currencies, dollar-priced goods become relatively less expensive, raising demand and boosting export prices. We assume real depreciation of the dollar will begin in 1986, which is one reason we forecast higher key debtor export growth during the 1986-90 period. Should the expected real depreciation not occur, these countries are likely to experience much smaller export gains.*

our baseline scenario, with real exports up 6 percent annually (table 3).<sup>3</sup> Nonoil exporters should record average nominal export gains of nearly 11 percent per year. In contrast, oil exporters will be hard hit by the expected weakness in the petroleum market; our calculations show overall (oil plus nonoil) export growth for the five members of this group<sup>4</sup> of only 7 percent annually.

We expect several Latin American countries to show solid increases in export earnings:

- Argentine* exports should be boosted by higher sales of agricultural products and manufactured goods. Expected dollar depreciation should improve competitiveness in European markets.

<sup>3</sup> See appendix A for a discussion of the methodology we used to project exports and import capacity and appendix B for a listing of exports and import capacity by debtor country for the 1984-90 period.

<sup>4</sup> The five members include Indonesia, Malaysia, Mexico, Nigeria, and Venezuela.

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**Table 3**  
**Key Debtor LDCs: Average Annual Export Growth Rates**  
**Under Alternative Scenarios, 1986-90**

Percent

|                | Nominal Exports |            |                 | Export Volume |            |                 |
|----------------|-----------------|------------|-----------------|---------------|------------|-----------------|
|                | Baseline        | Recession  | Average 1970-79 | Baseline      | Recession  | Average 1970-79 |
| <b>Average</b> | <b>8.1</b>      | <b>7.2</b> | <b>21.3</b>     | <b>6.0</b>    | <b>5.3</b> | <b>7.4</b>      |
| Argentina      | 11.3            | 9.9        | 17.1            | 6.3           | 5.0        | 11.9            |
| Bolivia        | 12.9            | 7.7        | 15.7            | 4.2           | -0.7       | 6.6             |
| Brazil         | 9.3             | 8.4        | 20.8            | 8.3           | 7.5        | 11.5            |
| Chile          | 9.8             | 8.6        | 12.6            | 5.6           | 4.4        | 3.9             |
| Colombia       | 14.5            | 12.9       | 18.0            | 9.6           | 8.1        | 5.7             |
| Indonesia      | 9.7             | 8.3        | 31.3            | 4.9           | 4.0        | 9.7             |
| Malaysia       | 8.7             | 7.8        | 21.2            | 6.0           | 5.3        | 10.4            |
| Mexico         | 5.1             | 4.8        | 20.4            | 4.5           | 4.3        | 12.0            |
| Nigeria        | 5.1             | 4.5        | 34.4            | 5.1           | 4.9        | 11.2            |
| Peru           | 8.3             | 7.2        | 14.9            | 5.9           | 4.8        | 10.4            |
| Philippines    | 9.4             | 7.8        | 18.3            | 6.8           | 5.2        | 8.6             |
| Venezuela      | 4.8             | 4.6        | 19.4            | 5.4           | 5.2        | -0.7            |

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- *Brazil* is likely to benefit from better prospects for cocoa, soybeans, and iron ore. Manufactures exports should also show steady growth, although protectionism from developed countries remains a threat.
- *Chile*, the largest and lowest cost copper producer in Latin America, will continue to push copper exports despite the resulting adverse impact on prices. In addition, prudent exchange rate policies and the expected depreciation of the dollar should boost agricultural and manufacturing exports.
- *Colombian* exports will be bolstered by increased coal and coffee exports, as well as the start of foreign petroleum sales.
- We expect *Mexico*, *Nigeria*, and *Venezuela* to experience the slowest growth in export earnings among the group of key debtors. All three countries will be hurt by the weak oil market, and nonoil exports are not likely to provide much relief. Nigerian efforts to boost nonoil exports will be hampered by a lack of exportable products and funding problems. Venezuela appears unwilling, or unable, to diversify exports, and Mexico faces stiff competition in its efforts to penetrate European markets.

In contrast:

- *Bolivia's* economic situation is so desperate that long-term prediction is risky. The country is in a hyperinflationary spiral, and labor organizations are dead set against needed reforms. Should the situation return to some semblance of normalcy, export prospects appear best in the petroleum area, but more uncertain for mineral sales (primarily tin).

In Asia, our analysis indicates solid export performances, with nominal export growth between 9 and 10 percent. *Indonesia* and *Malaysia* should benefit from prudent government export policies, recovery in rubber and timber markets, and a lower dependence on oil for export revenue than the other oil exporters. However, projected real exchange rate appreciation could blunt the growth of Indonesian nonoil exports, while expected real depreciation should boost Malaysian nonpetroleum exports. Higher sales of forest

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products, as well as favorable exchange rate movements, should increase *Philippine* exports, but sales of coconut oil, a major export, will face strong competition from palm oil. Lack of financing could also damage prospects for Philippine foreign sales.<sup>5</sup> [ ]

Brazil, should have the least difficulty securing funding. On the other hand, debtors with poor economic prospects, debt service arrearages, or who are reluctant to negotiate IMF agreements, such as Nigeria and Peru, are likely to find credit much harder to obtain. [ ]

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#### Debt Service Needs and Borrowing Capacity

Debt service requirements and the availability of new credit are two other factors that will determine the ability of key debtors to boost imports. Our analysis indicates that, while debt service needs will rise at a much slower pace over the 1986-90 period than during 1981-84, lenders are likely to remain reluctant to increase new lending to key debtors beyond current levels. [ ]

Recently, even countries thought to have their debt problems under control have run into difficulties. Argentina and Brazil—whose debts combined amount to more than \$150 billion—failed to meet past IMF conditionality requirements. The IMF responded by suspending credits to Brazil and Argentina, and, while the Argentines have come to agreement on a new set of targets, Brazil has not yet come to terms with IMF authorities. In addition, Mexican compliance is in increasing jeopardy, despite recently enacted budget and wage restraint measures. [ ]

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#### Slowing Growth of Debt Service

We expect rising debt service payments will be less of a constraint on import growth during 1986-90 than in 1980-84. Assuming slight declines in interest rates, debt service payments for the key debtor LDCs will rise from \$90 billion in 1985 to \$104 billion by 1990, an average annual growth rate of just 3 percent.<sup>6</sup> In contrast, debt service in these countries rose 17 percent annually during 1982-84. Interest payments will remain relatively constant, reflecting the expectation of lower interest rates, while principal repayments will rise by more than one-third, with the sharpest gains in 1987-89 (table 4).<sup>7</sup> [ ]

#### Impact on Imports and Economic Recovery

To assess the probable impact of projected exports, debt servicing, and new borrowing on import capacity and economic recovery, we devised a methodology (table 5) that linked: our expectations for export growth, our figures for debt service payments, our estimate of the services balance (excluding interest payments), an assumption that the level of new credit extended to key debtors remains constant at the 1985 level, and an assumption that foreign exchange reserves remain unchanged at this year's level. We then used these estimates of import capacity to assess the potential for economic recovery. [ ]

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#### Holding the Line on Credit

In contrast to the relatively favorable trends in debt service, new credit likely will remain limited over the last half of the decade. Countries perceived to have reasonable prospects for debt repayment, such as

#### Import Prospects

This analysis indicates that during the remainder of the decade three key debtors—Argentina, Brazil, and Chile—have the potential for sharp real import growth (table 6). Strong export growth combined with only modest increases in debt servicing will be the main factors contributing to these gains. In addition, all of these countries sharply cut imports between 1981 and 1984, which implies that import growth will start from a relatively small base, allowing for large percentage import increases. [ ]

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[ ] See also International Bank for Reconstruction and Development, *Price Prospects for Major Primary Commodities*, Report 814/84, September 1984. [ ]

<sup>7</sup> We assume no further debt rescheduling during 1986-90. Although rescheduling is possible for several key debtors, and would lower debt service payments over the rest of the decade, we cannot at this time determine the quantitative impact of future rescheduling on debt service. [ ]

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**Table 4**  
**Key Debtors: Debt Service Payments, 1984-90**

Billion US \$

|   | 1984          | 1985         | 1986         | 1987         | 1988         | 1989          | 1990          |
|---|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
| <b>Debt service <sup>a</sup></b>            |               |              |              |              |              |               |               |
| <b>Total</b>                                | <b>103.48</b> | <b>90.17</b> | <b>90.47</b> | <b>95.56</b> | <b>99.72</b> | <b>101.50</b> | <b>104.48</b> |
| Argentina                                   | 19.01         | 10.11        | 8.97         | 8.28         | 9.59         | 10.19         | 12.04         |
| Bolivia                                     | 0.75          | 0.80         | 0.93         | 0.98         | 0.95         | 1.00          | 1.08          |
| Brazil                                      | 18.64         | 19.18        | 20.26        | 22.30        | 23.13        | 22.76         | 23.60         |
| Chile                                       | 4.99          | 6.01         | 6.84         | 6.38         | 7.06         | 6.35          | 5.67          |
| Colombia                                    | 4.16          | 4.18         | 4.46         | 5.02         | 4.79         | 5.15          | 5.31          |
| Indonesia                                   | 6.09          | 6.52         | 6.80         | 7.29         | 7.71         | 8.03          | 7.80          |
| Malaysia                                    | 3.57          | 3.88         | 4.39         | 4.90         | 5.41         | 5.86          | 6.27          |
| Mexico                                      | 20.83         | 20.41        | 18.49        | 20.68        | 21.36        | 22.59         | 23.22         |
| Nigeria                                     | 3.54          | 5.53         | 4.73         | 5.05         | 4.60         | 4.02          | 3.76          |
| Peru  | 3.80          | 3.42         | 3.46         | 3.51         | 3.26         | 3.54          | 3.68          |
| Philippines                                 | 9.94          | 4.41         | 5.65         | 5.26         | 5.73         | 5.83          | 5.51          |
| Venezuela                                   | 8.16          | 5.72         | 5.49         | 5.91         | 6.13         | 6.18          | 6.54          |
| <b>Scheduled gross principal repayments</b> |               |              |              |              |              |               |               |
| <b>Total</b>                                | <b>59.68</b>  | <b>45.44</b> | <b>45.17</b> | <b>49.41</b> | <b>54.83</b> | <b>59.62</b>  | <b>62.07</b>  |
| Argentina                                   | 13.31         | 4.42         | 2.85         | 2.42         | 4.18         | 4.92          | 5.94          |
| Bolivia                                     | 0.38          | 0.44         | 0.54         | 0.58         | 0.53         | 0.57          | 0.64          |
| Brazil                                      | 6.64          | 6.60         | 6.96         | 8.20         | 8.83         | 11.06         | 11.80         |
| Chile                                       | 2.83          | 3.75         | 4.37         | 3.95         | 4.77         | 4.13          | 3.39          |
| Colombia                                    | 3.13          | 2.99         | 2.99         | 3.30         | 3.18         | 3.37          | 3.56          |
| Indonesia                                   | 4.47          | 4.92         | 5.09         | 5.53         | 6.08         | 6.42          | 6.37          |
| Malaysia                                    | 2.37          | 2.69         | 3.01         | 3.30         | 3.66         | 4.06          | 4.46          |
| Mexico                                      | 8.53          | 9.11         | 7.69         | 9.78         | 10.76        | 12.19         | 12.82         |
| Nigeria                                     | 2.29          | 3.09         | 3.11         | 3.60         | 3.38         | 3.06          | 2.86          |
| Peru  | 2.72          | 2.23         | 2.36         | 2.53         | 2.42         | 2.60          | 2.79          |
| Philippines                                 | 8.55          | 2.48         | 3.71         | 3.41         | 4.01         | 4.26          | 4.10          |
| Venezuela                                   | 4.46          | 2.72         | 2.49         | 2.81         | 3.03         | 2.98          | 3.34          |
| <b>Interest payments</b>                    |               |              |              |              |              |               |               |
| <b>Total</b>                                | <b>43.80</b>  | <b>44.73</b> | <b>45.30</b> | <b>46.15</b> | <b>44.89</b> | <b>41.88</b>  | <b>42.41</b>  |
| Argentina                                   | 5.70          | 5.69         | 6.12         | 5.86         | 5.41         | 5.27          | 6.10          |
| Bolivia                                     | 0.37          | 0.36         | 0.39         | 0.40         | 0.42         | 0.43          | 0.44          |
| Brazil                                      | 12.00         | 12.58        | 13.30        | 14.10        | 14.30        | 11.70         | 11.80         |
| Chile                                       | 2.16          | 2.26         | 2.47         | 2.43         | 2.29         | 2.22          | 2.28          |
| Colombia                                    | 1.03          | 1.19         | 1.47         | 1.72         | 1.61         | 1.78          | 1.75          |
| Indonesia                                   | 1.62          | 1.60         | 1.71         | 1.76         | 1.63         | 1.61          | 1.43          |
| Malaysia                                    | 1.20          | 1.19         | 1.38         | 1.60         | 1.75         | 1.80          | 1.81          |
| Mexico                                      | 12.30         | 11.30        | 10.80        | 10.90        | 10.60        | 10.40         | 10.40         |
| Nigeria                                     | 1.25          | 2.44         | 1.62         | 1.45         | 1.22         | 0.96          | 0.90          |
| Peru  | 1.08          | 1.19         | 1.10         | 0.98         | 0.84         | 0.94          | 0.89          |
| Philippines                                 | 1.39          | 1.93         | 1.94         | 1.85         | 1.72         | 1.57          | 1.41          |
| Venezuela                                   | 3.70          | 3.00         | 3.00         | 3.10         | 3.10         | 3.20          | 3.20          |

<sup>a</sup> Includes short-term payments.

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**Table 5**  
**Key Debtors: Projected Growth of Import Capacity**  
**Under Alternative Scenarios, 1984-90**

Billion US \$

|   | 1984 <sup>a</sup> | 1985        | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|-------------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>                             |                   |             |              |              |              |              |              |
| Exports   | 135.8             | 131.6       | 140.4        | 154.2        | 167.7        | 180.0        | 194.7        |
| Plus: Gross borrowing <sup>b</sup>                        | 84.5              | 69.3        | 69.0         | 73.2         | 77.7         | 82.4         | 84.9         |
| Plus: Other services balance                              | -9.8              | -14.2       | -11.7        | -11.7        | -11.7        | -11.7        | -11.7        |
| Less: Debt service  | 103.5             | 90.2        | 90.5         | 95.6         | 99.7         | 101.5        | 104.5        |
| Less: Change in foreign exchange reserves                 | 13.4              | -0.1        | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>                          | <b>93.6</b>       | <b>96.6</b> | <b>107.2</b> | <b>120.1</b> | <b>133.9</b> | <b>149.2</b> | <b>163.4</b> |
| Change in import capacity<br>(percent over previous year) |                   | 3.2         | 11.0         | 12.0         | 11.6         | 11.3         | 9.5          |
| <b>Recession scenario</b>                                 |                   |             |              |              |              |              |              |
| Exports   | 135.8             | 131.6       | 138.7        | 148.9        | 161.6        | 172.8        | 186.6        |
| Plus: Gross borrowing                                     | 84.5              | 69.3        | 69.0         | 73.2         | 77.7         | 82.4         | 84.9         |
| Plus: Other services balance                              | -9.8              | -14.2       | -11.7        | -11.7        | -11.7        | -11.7        | -11.7        |
| Less: Debt service  | 103.5             | 90.2        | 90.5         | 95.6         | 99.7         | 101.5        | 104.5        |
| Less: Change in foreign exchange reserves                 | 13.4              | -0.1        | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>                          | <b>93.6</b>       | <b>96.6</b> | <b>105.5</b> | <b>114.8</b> | <b>127.8</b> | <b>142.0</b> | <b>155.3</b> |
| Change in import capacity<br>(percent over previous year) |                   | 3.2         | 9.2          | 8.8          | 11.3         | 11.1         | 9.4          |

<sup>a</sup> Actual figures. Numbers may not add due to rounding.

<sup>b</sup> See appendix A for discussion of how we derived figures for gross borrowing.

Less impressive import gains are likely for Indonesia, Peru, the Philippines, and Venezuela, primarily because the average rate of export growth will be slower for this group of debtors than for those mentioned above. Venezuelan real import growth, although modest, is likely to be the fastest among oil-exporting key debtors. Past import cuts, implying that import growth will start from a relatively small base, and moderate debt service payments will partially offset slow export growth. In addition, Venezuela has substantial foreign exchange reserves, which could be used to boost imports should export earnings fall short of expectations. Indonesia and the Philippines made less drastic cuts in import volume, so that import growth will start from a larger base, allowing for smaller percentage import gains.

Four key debtors—Colombia, Malaysia, Mexico, and Nigeria—face long-term import restraint. Our analysis indicates real import growth for these countries could average less than 4 percent annually. There are three likely reasons for this result:

- Weak growth of oil exports will damage import prospects for all the oil exporters in this group, especially for countries with few nonoil exports, such as Nigeria.
- High or fast-rising debt service payments will limit the growth of real import capacity in Colombia and (especially) Malaysia. Additionally, import growth for both these countries will start from a relatively high base.

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**Table 6**  
**Key LDCs: Projected Annual Growth of Import Capacity**  
**Under Alternative Scenarios, 1986-90**

Percent

|                | Nominal Import Capacity |             |                 | Real Import Capacity <sup>a</sup> |            |                 |
|----------------|-------------------------|-------------|-----------------|-----------------------------------|------------|-----------------|
|                | Baseline                | Recession   | Average 1970-79 | Baseline                          | Recession  | Average 1970-79 |
| <b>Average</b> | <b>11.0</b>             | <b>10.0</b> | <b>21.5</b>     | <b>5.2</b>                        | <b>4.2</b> | <b>8.0</b>      |
| Argentina      | 17.0                    | 14.8        | 15.8            | 10.8                              | 8.7        | 3.0             |
| Bolivia        | 16.1                    | 7.7         | 16.8            | 10.0                              | 2.2        | 3.9             |
| Brazil         | 16.5                    | 15.3        | 24.6            | 10.4                              | 9.2        | 10.8            |
| Chile          | 12.9                    | 11.5        | 18.2            | 7.0                               | 5.7        | 5.1             |
| Colombia       | 8.1                     | 6.8         | 16.5            | 2.4                               | 1.1        | 3.6             |
| Indonesia      | 10.5                    | 9.1         | 25.0            | 4.7                               | 3.3        | 11.1            |
| Malaysia       | 9.0                     | 8.1         | 21.9            | 3.3                               | 2.4        | 8.4             |
| Mexico         | 6.9                     | 6.4         | 19.9            | 1.3                               | 0.8        | 6.6             |
| Nigeria        | 8.5                     | 7.9         | 34.7            | 2.8                               | 2.2        | 19.8            |
| Peru           | 12.6                    | 11.3        | 11.5            | 6.7                               | 5.5        | 3.0             |
| Philippines    | 10.6                    | 9.1         | 18.4            | 4.7                               | 3.3        | 5.3             |
| Venezuela      | 11.3                    | 11.0        | 20.5            | 5.4                               | 5.2        | 7.1             |

<sup>a</sup> Real import capacity is defined as nominal import capacity corrected for price changes. See appendix A for further discussion.

- Poor export prospects make the outlook for Mexico particularly grim. Real imports are forecast to decline in 1986, with lethargic growth over the rest of the decade. By 1990 real imports could still be more than 30 percent below the peak reached in 1981.

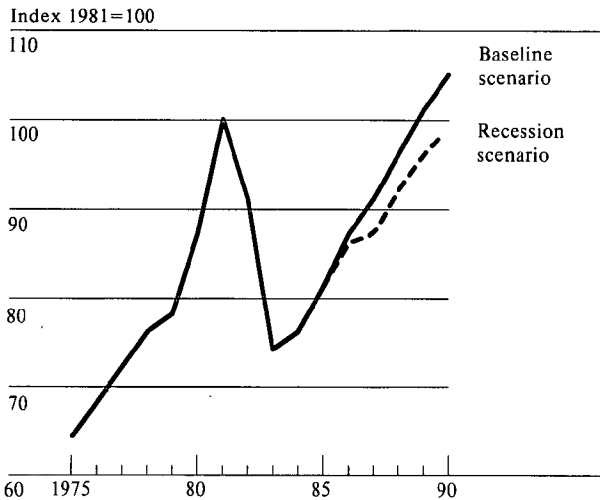
Although Mexico is the worst case, growth of real import capacity over the period will not be sufficient to restore the sharp 1982-83 cutbacks in several other countries. Nigeria also is unlikely to even approach preausterity levels, and Venezuela is forecast to record falling import volume during 1989-90. In contrast, Argentina and Brazil have the potential to return real imports above preausterity (1981) levels. Indonesia and Malaysia, countries that have managed to avoid sharp import cutbacks, are likely to exceed their 1981 real import levels by a considerable margin.

#### Implications for Economic Recovery

Use of projected changes in real imports to predict real income growth is risky, considering that the relationship between imports and GNP varies among LDCs. Nevertheless, we believe that for most key debtors real imports will have to grow substantially faster than real income during the next several years to achieve economic recovery. Most key debtor economies are strongly dependent on imports, and in past years rapid import growth has fueled consumption and (especially) investment, leading to solid real income growth. Recent import cutbacks, however, have left the ratio of real imports to real GNP at its lowest level in a decade for the key debtors as a group; in many of these countries import shortages have disrupted economic activity. Given the dependence of

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**Figure 3**  
**Key LDC Debtors: Projected Real Aggregate**  
**Real Import Capacity, 1975-90<sup>a</sup>**



<sup>a</sup> Actual imports, 1975-84.

consumption and investment on imports, and the need to make up for past import cuts, real imports will need to grow rapidly to sustain economic recovery beyond a year or two. Indonesia and Malaysia are exceptions: they managed to avoid import cuts during the early 1980s.

Given these assumptions, the following generalizations concerning economic growth prospects for the key debtors for the 1986-90 period seem indicated:

- Solid real import gains could make healthy economic recovery possible in Argentina and Brazil, provided inflation is brought under control and problems with lenders are resolved. Real GNP growth is likely to continue in Indonesia and Malaysia, although at a slower pace than in previous years.
- Countries such as Chile, Colombia, Peru, and Venezuela have the capacity to record more modest real income gains. However, the new government in Peru must put together a coherent set of economic policies and resolve its problems with the IMF and

other creditors if the recovery is to be realized. Should commercial banks declare loans to be "value-impaired," or should Lima suspend all commercial debt repayments, creditors would probably react by cutting off all credits. This would substantially reduce import capacity and almost certainly short-circuit any hopes for sustained economic growth.

- Debtors such as Bolivia, Mexico, Nigeria, and the Philippines face the prospect of slow growth, or continued economic stagnation. Despite moderate real import growth, the Philippines faces a series of problems—internal feuding, an uncertain presidential succession, lack of foreign investment, and continued difficulties with creditors—that could dash hopes for even a modest recovery. In Bolivia, formidable political and social problems would need to be resolved and creditworthiness restored before recovery could take place, a process we do not see occurring in the near future.<sup>8</sup> Finally, none of the countries in this group has sufficient foreign exchange reserves to significantly boost import capacity over the rest of the decade, further limiting chances for sustained economic growth.

#### Political and Social Implications

On the basis of our estimates of key debtor economic performances over the rest of the decade, we judge that two countries, Argentina and Brazil, could see reduced political and social tensions in the medium term. However, the road is likely to be rocky in the short run because inflation problems and difficulties with IMF-approved adjustment programs have yet to be resolved. Other debtors, such as Chile, Colombia, and Venezuela, are likely to see relatively little change in their domestic situations. Several countries,

<sup>8</sup> Brazil and Mexico are likely to require harsh domestic measures in the future to remedy high inflation rates and maintain compliance with IMF adjustment programs. Peru could also be a candidate for such measures, although the new government is likely to resist their use. These actions, along with those recently announced by Argentina, would depress domestic demand and reduce real GNP gains. The size of the reduction would depend on the particular measures involved.

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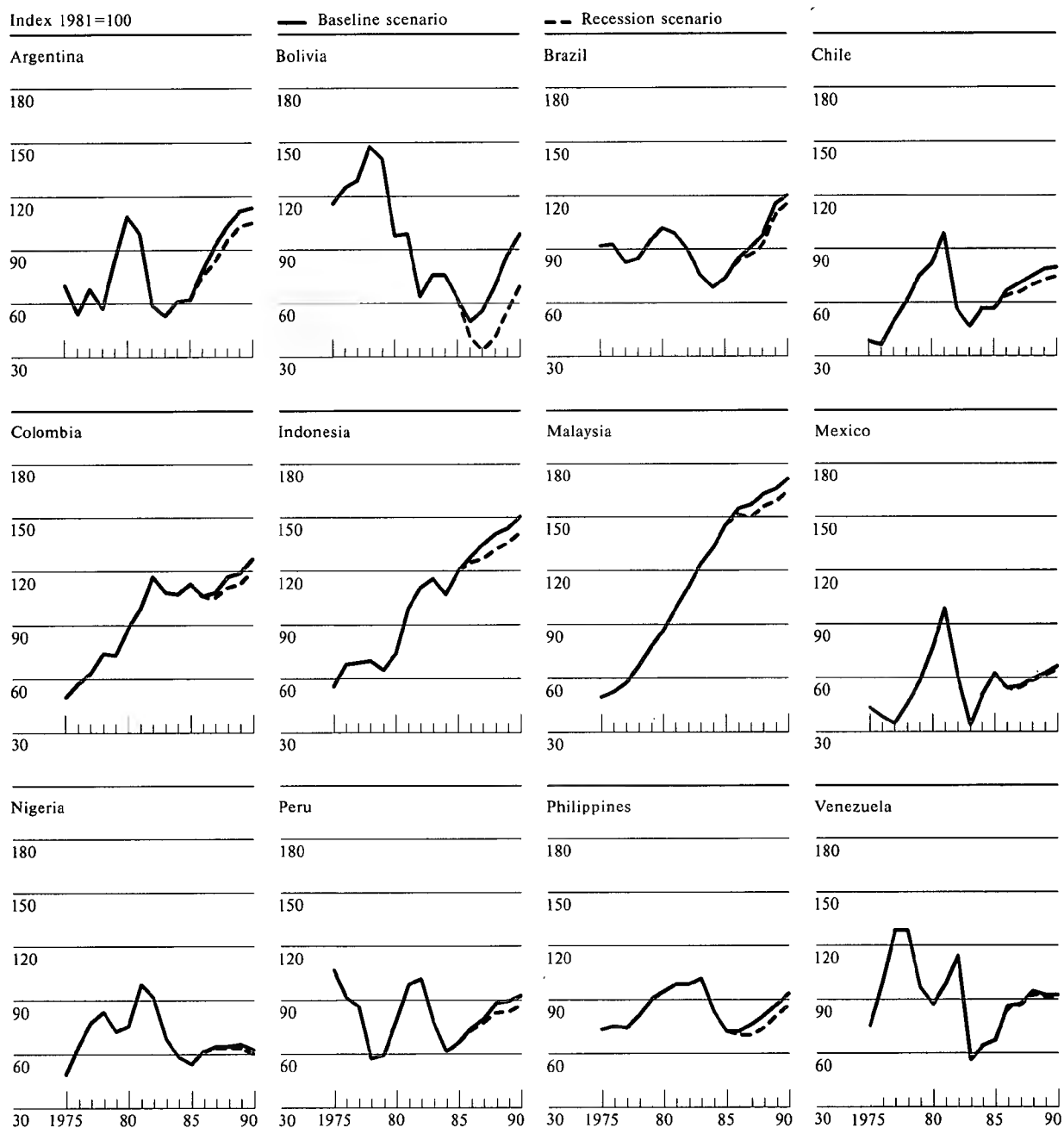
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**Figure 4**  
**Key LDC Debtors: Projected Real Import Capacity, 1975-90<sup>a</sup>**



<sup>a</sup> Actual imports, 1975-84.

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**Use of Foreign Exchange Reserves To Boost Imports**

*All key debtors hold foreign exchange reserves that could be used to boost import capacity above the limits dictated by export earnings and debt servicing. Use of these reserves would be especially important in countries such as Mexico and Venezuela, where small import gains are projected. We examined the five key debtors with the poorest potential for real import growth—Colombia, Malaysia, Mexico, Nigeria, and Venezuela—to determine the extent of their ability to use reserves in this manner:*

- *Colombia (\$1.3 billion).<sup>a</sup> Colombia used more than \$1 billion of its reserves last year, and embassy reports indicate an additional drawdown of \$300 million this year. As a result, reserve holdings have become too small to significantly alter import capacity over the rest of the decade.*
- *Malaysia (\$5 billion). We believe Malaysia could boost real import capacity an additional 1 percentage point per year by using about half its reserve holdings. However, the government probably would not do so unless a major economic slowdown occurred.*

<sup>a</sup> *Figures are estimated foreign exchange reserve holding at year-end 1985.*

- *Mexico (\$4.5 billion). Mexico's situation is so bleak that average annual real import growth would not exceed 2 percent even if all reserves were used. A more feasible plan would be to use reserves to prevent real imports from falling in 1986 and to boost imports in selected years during the rest of the period.*

- *Nigeria (\$1 billion). Reserves equal only 2 months of import coverage and could not be effectively used to increase imports during 1986-90.*

- *Venezuela (\$13 billion). Venezuela is in a strong position to use its reserve holdings to boost imports. We estimate that the growth of real imports could be doubled (to nearly 11 percent per year) by drawing down \$3-4 billion in reserves. However, embassy reports indicate that government officials remain unwilling to boost imports in this way, although continued economic stagnation could change their thinking.*

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including Mexico, Nigeria, and the Philippines, face the possibility of increased tensions, which could have adverse effects on US interests.

growth later in the decade likely will ease domestic tensions, increasing the probability that democracy will survive in both countries.

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In Argentina, newly announced economic policies to curb inflation and budgetary problems could accelerate economic decline and increase domestic unrest in the short run, especially if the program is perceived as ineffective. Brazil, declared out of compliance with the IMF in February, is balking at IMF insistence on tough austerity measures to remedy high inflation. Meanwhile, bankers are holding up completion of Brazil's debt restructuring until IMF difficulties are resolved. Provided these problems can be overcome, and we believe they will, accelerating real income

Among those key debtors facing slower economic growth or continued austerity:

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- *Bolivian labor-government confrontations could grow increasingly violent as conditions continue to deteriorate. We believe that there is a strong probability the military would end the country's experiment in democracy should the situation become too chaotic or if it appears that the left is gaining the upper hand.*

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**A Worst Case Scenario—OECD Recession**

*Our analysis indicates that, for most key debtors, exports are particularly sensitive to changes in OECD real GNP. Thus, a drop in OECD real income growth, such as occurred in 1981-82, would reduce export gains, leaving debtors with less foreign exchange to meet debt service obligations and to boost imports. In turn, chances for economic recovery would be dimmed at a time when, under our baseline assumptions, recovery should be gathering momentum. To quantify the impact of a recession in developed countries on debtor exports, we altered the baseline scenario so that OECD real GNP growth falls to 1.5 percent in 1986 and 0 percent in 1987, recovering to 3 percent per year thereafter.*

*The results indicate a recession would slash key debtor export earnings \$27 billion over the 1986-90 period, slicing the average annual real export growth rate by about 1 percentage point. We believe nonoil exporters, and oil exporters with significant nonoil sectors, would be hardest hit. Indonesia and Brazil would probably suffer the largest foreign sales losses, each totaling about \$6 billion. Malaysia and Argentina could record declines of more than \$3 billion.*

*In our opinion, losses of these magnitudes would force reductions in annual real import growth of between 1 and 2 percentage points for most nonoil debtors. The impact would be relatively minor on countries such as Argentina and Brazil; growth of import volume could remain above 8 percent per year on average, sufficient to ensure solid, though slower, real GNP growth. On the other hand, debtors with more pessimistic import prospects, such as Colombia and the Philippines, would feel a greater impact. Should a recession occur, the resulting loss of real import capacity would leave these countries little chance for even small real GNP gains unless substantial new funding were available to boost import growth. Given current lender attitudes, we believe new credit would be difficult to obtain.*

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*Among oil-exporting key debtors, Indonesia and Malaysia would likely experience the largest reductions in real GNP growth; our analysis indicates growth rates would be reduced on average about 1 percent per year. The effects on Mexico, Nigeria, and Venezuela would be less adverse.*

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- In the face of slower economic growth, Indonesia probably will have difficulty providing employment for its fast-growing labor force. The result could be increased unrest, particularly among young people.
- A sharp deterioration in the Mexican economy would aggravate existing policy conflicts within the government, strengthening the hand of the minority who favor repudiation of Mexico's \$100 billion external debt. Economic decline also would increase popular discontent with the ruling party and heighten the potential for social unrest. In response to acute economic difficulties, Mexico's leaders might seek publicity to deflect some of the blame toward the United States. Privately, however, they probably would request new financial assistance and greater

trade concessions. Under such circumstances, bilateral relations would not necessarily deteriorate: Washington would acquire new leverage with Mexico City that it might use to exact promises of greater Mexican cooperation on issues of major concern to the United States, including drug trafficking, Central America, and illegal immigration.

- We believe there is a high potential for unrest in Nigeria. With economic recovery expected to be relatively slow, we do not rule out the possibility that Nigeria will experience one or more additional coups and deepening social fragmentation. Should

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new leaders opt for a more radical and authoritarian path, an even more volatile political climate and deteriorating relationship with creditors could result.

- Conditions in the Philippines will remain ripe for increased unrest. Economic growth probably will be too weak to create enough jobs for new workers entering the labor force. In addition, annual per capita GNP gains are forecast to be slight. Both factors could increase support for the leftist insurgents. [ ]

#### A Policy Dilemma for the United States?

Third World countries are keenly aware that their trade and growth prospects depend in large measure on the economic policies of the industrial countries. This impression has been reinforced by the US role as the main locomotive of growth during the current world recovery. Now, however, economic growth in the United States is slowing, and Washington is likely to face increasing pressure from conflicting domestic and international objectives. US policies to maintain rapid economic growth risk reigniting inflation, and increased imports would balloon the huge trade deficit and further damage domestic industries, leading to greater pressures for import restrictions. However, should growth slow, Third World hopes for recovery will fade, causing increased political pressure on the United States to maintain high economic growth and boost imports even further. In addition, key debtors probably will call for debt relief and more financial aid. Mexico, with its poor economic prospects and close ties to the United States, could take the lead in this direction. Given the fragile outlook for recovery in the Third World, we do not believe the US policy dilemma will be resolved over the rest of the decade.

[ ]

The key US role in the debtor countries' recovery is illustrated by the fact that the United States buys on average nearly 35 percent of their exports. For Mexico, the share is even higher—70 percent. Should the share remain unchanged for the group as a whole, US imports would have to rise \$25 billion over the next

five years under our baseline scenario. It is uncertain whether the United States can absorb an increase of that magnitude. [ ]

Japan and the major West European countries, each of which account for about 15 percent of the key debtors' exports, also will be important to debtor growth prospects. With a hefty \$30 billion trade surplus, Japan could easily afford to boost imports and increase its share of the key debtor export market. However, given the maze of Japanese import restrictions and powerful domestic forces dead set against trade liberalization, debtor countries will have difficulty making further inroads into the Japanese market. The European Big Four—France, Italy, the United Kingdom, and West Germany—also face strong protectionist pressures from domestic industries. In addition, faster economic growth will be a prerequisite to increasing their imports from key debtors. [ ]

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## Appendix A

### Methodology

#### Determination of Nonoil Export Trends

We obtained estimates for nonoil exports through econometric analysis, based on export data from 1969-84. Real (inflation-adjusted) exports were assumed to depend on OECD real GNP and the real exchange rate. A jump in OECD real GNP increases the demand for imports, boosting key debtor exports. A decrease in the real exchange rate implies an improvement in the competitive position of key debtors against their trading partners, thereby increasing key debtor exports. We also allowed for the possibility of a lag in the response of export demand to changes in real GNP or exchange rates. [ ]

We calculated the real—price adjusted and trade weighted—exchange rate by taking the ratio of the wholesale price index (or, when unavailable, the consumer price index) of each key debtor to the trade-weighted average of the corresponding price indexes of the country's 16 main OECD trading partners, and multiplied this figure by the country's trade-weighted exchange rate. The base year for our calculations was 1980. The calculated real exchange rates provide a measure of recent changes in competitiveness. With OECD real GNP and the real exchange rate determined, nonoil export volume was derived. [ ]

The export price index (in terms of US dollars) was taken to be equal to the key debtor wholesale price index divided by the bilateral dollar exchange rate index. The base year for all indexes was 1980. The wholesale price index was used because an export price series was not available for each key debtor and because the wholesale price index includes a wide variety of tradeable goods. The export price index was then multiplied by the estimate of real exports to obtain overall nonoil exports in US dollars. For oil-exporting key debtors, oil exports were added to this figure to obtain total exports. Further data, and a listing of the export equations, can be obtained from the author. [ ]

#### Determination of Oil Export Trends

To estimate oil export earnings for the five major oil-exporting key debtors, we used Embassy reporting [ ]

as a base. Recent reports indicate that prices are expected to remain weak in the medium term, as the effects of substitution of coal and natural gas for oil continue to be felt. The continued strength of the dollar will limit increases in demand this year. In 1986-90, expected dollar depreciation and continued economic growth should boost demand more rapidly, but a condition of oversupply is expected to persist. [ ]

[ ] we project that after 1985 average oil prices will decrease to \$25 a barrel and remain at that price through the rest of the decade. [ ]

Estimates of demand, government production and export decisions, and production capacity were used to project oil export volume:

|      | <i>Million barrels per day</i> |        |          |         |           |
|------|--------------------------------|--------|----------|---------|-----------|
|      | Indonesia                      | Mexico | Malaysia | Nigeria | Venezuela |
| 1985 | 1.00                           | 1.45   | 0.43     | 1.20    | 1.30      |
| 1986 | 1.03                           | 1.50   | 0.45     | 1.30    | 1.40      |
| 1987 | 1.13                           | 1.55   | 0.50     | 1.40    | 1.50      |
| 1988 | 1.17                           | 1.60   | 0.55     | 1.45    | 1.60      |
| 1989 | 1.17                           | 1.65   | 0.55     | 1.50    | 1.60      |
| 1990 | 1.20                           | 1.75   | 0.60     | 1.50    | 1.65      |

[ ] To compute yearly estimates of oil revenue, we multiplied these daily export figures by 365 to get yearly export volume, and then multiplied that figure by the average price. [ ]

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**Exports Under Alternative Scenarios, 1986-90**

To determine the influence on debtor exports of changes in OECD real GNP growth and key debtor real exchange rates, we calculated export growth for the 1986-90 period under several alternative scenarios for real GNP and exchange rates. The results indicate that movements in OECD real income exert nearly three times the impact of an equal percentage change in real exchange rates. Therefore, we decided to concentrate on the effects of changes in developed countries' GNP on key debtor exports, using two scenarios:

- The baseline case, assuming OECD real GNP growth of 3 percent annually and changes in real exchange rates consistent with private forecasts.
- The recession scenario, assuming real GNP growth of 3 percent this year, 1.5 percent in 1986, 0 percent in 1987, and 3 percent per year in 1988-90.

**Implications of Export Growth**

To quantify the impact of export growth on the ability of debtors to boost imports and achieve economic recovery, we first calculated nominal import capacity—the dollar value of imports that key debtors could finance given the constraints dictated by export earnings, debt service requirements, and the availability of credit—for each of the two export scenarios. To make this calculation, we defined net borrowing (NB) as gross borrowing (GB) less principal repayments (PR):

$$NB = GB - PR$$

By assumption, net borrowing is to remain constant at the 1985 level. With principal repayments known, the level of gross borrowing is therefore fixed.

Gross borrowing can be defined as imports (IM) less exports (EX), less the services balance excluding interest payments (SB), plus projected debt service (DS), plus the change in foreign exchange reserves (FX),<sup>9</sup> or:

$$GB = IM - EX - SB + DS + FX$$

<sup>9</sup> Gross borrowing could also be defined as the sum of "new money" loans and loans that "roll over" the principal repayments on old loans. Net borrowing could be redefined as the increase in foreign lender exposure in the debtor country.

Terms can be rearranged to define import capacity:

$$EX - DS + GB + SB - FX = IM$$

Fixing exports, debt service, the services balance, the change in foreign exchange reserves, and gross borrowing fixes nominal import capacity.

Real income growth is more closely linked to increases in real imports than to nominal imports. To compute real import capacity, we adjusted nominal import capacity for changes in OECD export prices.<sup>10</sup> Export prices for the 1986-90 period are based on private forecasts of export price inflation.

Once changes in real import capacity (referred to in the text as "real imports") were computed, the relationship between changes in real imports and changes in real income could be investigated. Our analysis indicated that over the 1969-83 period for the key debtors as a group a 1.3-percent increase in real imports was associated with every 1-percent jump in real income, although this relationship varied widely among individual countries. Because of past import cuts, we made the assumption that a larger ratio would be required during 1986-90. Given this ratio, an estimate of the impact on real GNP of projected changes in real imports could be made.

Debt service figures were obtained from IMF publications, Embassy reports, and CIA analyst's estimates. These numbers do not include payments on any new debt incurred after 1984. Should new borrowing occur, the debt service figures we used will understate the actual level of debt service for the 1985-90 period. Further information on computation of exports, import capacities, and real GNP figures are available from the author.

<sup>10</sup> The OECD export price index was used as a proxy for import prices because most key debtor imports come from the OECD, and because four key debtors publish an import price series.

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## **Appendix B**

### **Data Tables**

This appendix provides individual country data for the 1984-90 period. The tables indicate projected nominal exports and nominal import capacity under each scenario (actual figures for 1984), as well as debt service payments, gross borrowing, the service balance, and changes in foreign exchange reserves. Figures for exports and import capacity are reported "freight-on- board."

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**Table B-1**  
**Argentina***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990         |
|---|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |              |
| Exports                                   | 8.10        | 8.40        | 9.28        | 10.54       | 11.52       | 12.68       | 14.35        |
| Plus: Gross borrowing                     | 17.33       | 8.44        | 6.87        | 6.44        | 7.20        | 7.94        | 8.96         |
| Plus: Other services balance              | -0.55       | -1.25       | -1.25       | -1.25       | -1.25       | -1.25       | -1.25        |
| Less: Debt service                        | 19.01       | 10.11       | 8.97        | 8.28        | 9.59        | 10.19       | 12.04        |
| Less: Change in foreign exchange reserves | 1.65        | 0.90        | 0           | 0           | 0           | 0           | 0            |
| <b>Balance (import capacity)</b>          | <b>4.22</b> | <b>4.58</b> | <b>5.93</b> | <b>7.45</b> | <b>7.88</b> | <b>9.18</b> | <b>10.02</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |              |
| Exports                                   | 8.10        | 8.40        | 9.06        | 9.83        | 10.78       | 11.88       | 13.46        |
| Plus: Gross borrowing                     | 17.33       | 8.44        | 6.87        | 6.44        | 7.20        | 7.94        | 8.96         |
| Plus: Other services balance              | -0.55       | -1.25       | -1.25       | -1.25       | -1.25       | -1.25       | -1.25        |
| Less: Debt service                        | 19.01       | 10.11       | 8.97        | 8.28        | 9.59        | 10.19       | 12.04        |
| Less: Change in foreign exchange reserves | 1.65        | 0.90        | 0           | 0           | 0           | 0           | 0            |
| <b>Balance (import capacity)</b>          | <b>4.22</b> | <b>4.58</b> | <b>5.71</b> | <b>6.74</b> | <b>7.14</b> | <b>8.38</b> | <b>9.13</b>  |

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**Table B-2**  
**Bolivia***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |             |
| Exports                                   | 0.70        | 0.60        | 0.62        | 0.63        | 0.77        | 0.94        | 1.10        |
| Plus: Gross borrowing <sup>a</sup>        | 0.80        | 0.78        | 0.88        | 0.92        | 0.87        | 0.91        | 0.98        |
| Plus: Other services balance              | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       |
| Less: Debt service <sup>a</sup>           | 0.75        | 0.80        | 0.93        | 0.98        | 0.95        | 1.00        | 1.08        |
| Less: Change in foreign exchange reserves | 0.08        | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>0.47</b> | <b>0.38</b> | <b>0.37</b> | <b>0.37</b> | <b>0.49</b> | <b>0.65</b> | <b>0.80</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |             |
| Exports                                   | 0.70        | 0.60        | 0.57        | 0.49        | 0.57        | 0.70        | 0.87        |
| Plus: Gross borrowing                     | 0.80        | 0.78        | 0.88        | 0.92        | 0.87        | 0.91        | 0.98        |
| Plus: Other services balance              | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       | -0.20       |
| Less: Debt service                        | 0.75        | 0.80        | 0.93        | 0.98        | 0.95        | 1.00        | 1.10        |
| Less: Change in foreign exchange reserves | 0.08        | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>0.47</b> | <b>0.38</b> | <b>0.32</b> | <b>0.23</b> | <b>0.29</b> | <b>0.41</b> | <b>0.55</b> |

<sup>a</sup> Figures assume all principle and interest payments due on official and private debt will be met. Private debt has not been serviced since June 1984, and official debt has been serviced only through January 1985.



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**Table B-3**  
**Brazil***Billion US \$*

|   | 1984         | 1985         | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |              |              |              |              |              |              |              |
| Exports                                   | 26.90        | 26.00        | 28.39        | 31.64        | 34.54        | 37.46        | 40.63        |
| Plus: Gross borrowing                     | 14.34        | 10.68        | 11.04        | 12.28        | 12.91        | 15.14        | 15.88        |
| Plus: Other services balance              | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        |
| Less: Debt service                        | 18.64        | 19.18        | 20.26        | 22.30        | 23.13        | 22.76        | 23.60        |
| Less: Change in foreign exchange reserves | 6.50         | 1.00         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>13.90</b> | <b>14.30</b> | <b>16.97</b> | <b>19.42</b> | <b>22.12</b> | <b>27.64</b> | <b>30.71</b> |
| <b>Recession scenario</b>                 |              |              |              |              |              |              |              |
| Exports                                   | 26.90        | 26.00        | 28.13        | 30.70        | 33.27        | 35.98        | 39.00        |
| Plus: Gross borrowing                     | 14.34        | 10.68        | 11.04        | 12.28        | 12.91        | 15.14        | 15.88        |
| Plus: Other services balance              | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        | -2.20        |
| Less: Debt service                        | 18.64        | 19.18        | 20.26        | 22.30        | 23.13        | 22.76        | 23.60        |
| Less: Change in foreign exchange reserves | 6.50         | 1.00         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>13.90</b> | <b>14.30</b> | <b>16.71</b> | <b>18.48</b> | <b>20.85</b> | <b>26.16</b> | <b>29.08</b> |

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**Table B-4**  
**Chile***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |             |
| Exports                                   | 3.69        | 3.95        | 4.45        | 4.94        | 5.32        | 5.85        | 6.30        |
| Plus: Gross borrowing                     | 5.02        | 5.95        | 6.57        | 6.15        | 6.97        | 6.33        | 5.59        |
| Plus: Other services balance              | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       |
| Less: Debt service                        | 4.99        | 6.01        | 6.84        | 6.38        | 7.06        | 6.35        | 5.67        |
| Less: Change in foreign exchange reserves | 0.08        | 0.40        | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>3.40</b> | <b>3.25</b> | <b>3.94</b> | <b>4.47</b> | <b>4.99</b> | <b>5.59</b> | <b>5.98</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |             |
| Exports                                   | 3.69        | 3.95        | 4.36        | 4.65        | 5.03        | 5.44        | 5.96        |
| Plus: Gross borrowing                     | 5.02        | 5.95        | 6.57        | 6.15        | 6.97        | 6.33        | 5.59        |
| Plus: Other services balance              | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       | -0.24       |
| Less: Debt service                        | 4.99        | 6.01        | 6.84        | 6.38        | 7.06        | 6.35        | 5.67        |
| Less: Change in foreign exchange reserves | 0.08        | 0.40        | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>3.40</b> | <b>3.25</b> | <b>3.85</b> | <b>4.18</b> | <b>4.70</b> | <b>5.18</b> | <b>5.64</b> |

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**Table B-5**  
**Colombia***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |             |
| Exports                                   | 2.95        | 3.20        | 3.64        | 4.30        | 4.89        | 5.54        | 6.29        |
| Plus: Gross borrowing                     | 5.01        | 5.78        | 5.78        | 6.09        | 5.97        | 6.16        | 6.35        |
| Plus: Other services balance              | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       |
| Less: Debt service                        | 4.16        | 4.18        | 4.46        | 5.02        | 4.79        | 5.15        | 5.31        |
| Less: Change in foreign exchange reserves | -1.20       | -0.30       | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>4.60</b> | <b>4.70</b> | <b>4.56</b> | <b>4.97</b> | <b>5.67</b> | <b>6.15</b> | <b>6.93</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |             |
| Exports                                   | 2.95        | 3.20        | 3.59        | 4.13        | 4.61        | 5.20        | 5.88        |
| Plus: Gross borrowing                     | 5.01        | 5.78        | 5.78        | 6.09        | 5.97        | 6.16        | 6.35        |
| Plus: Other services balance              | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       | -0.40       |
| Less: Debt service                        | 4.16        | 4.18        | 4.46        | 5.02        | 4.79        | 5.15        | 5.31        |
| Less: Change in foreign exchange reserves | -1.20       | -0.30       | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>4.60</b> | <b>4.70</b> | <b>4.51</b> | <b>4.80</b> | <b>5.39</b> | <b>5.81</b> | <b>6.52</b> |

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**Table B-6**  
**Indonesia***Billion US \$*

|   | 1984         | 1985         | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |              |              |              |              |              |              |              |
| Exports                                   | 17.30        | 18.17        | 19.50        | 22.01        | 24.18        | 26.14        | 28.86        |
| Plus: Gross borrowing                     | 8.99         | 9.55         | 9.72         | 10.16        | 10.71        | 11.05        | 11.00        |
| Plus: Other services balance              | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        |
| Less: Debt service                        | 6.09         | 6.52         | 6.80         | 7.29         | 7.71         | 8.03         | 7.80         |
| Less: Change in foreign exchange reserves | 0.80         | 0.40         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>16.00</b> | <b>17.40</b> | <b>19.02</b> | <b>21.48</b> | <b>23.78</b> | <b>25.76</b> | <b>28.66</b> |
| <b>Recession scenario</b>                 |              |              |              |              |              |              |              |
| Exports                                   | 17.30        | 18.17        | 19.13        | 20.82        | 22.84        | 24.68        | 27.04        |
| Plus: Gross borrowing                     | 8.99         | 9.55         | 9.72         | 10.16        | 10.71        | 11.05        | 11.00        |
| Plus: Other services balance              | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        | -3.40        |
| Less: Debt service                        | 6.09         | 6.52         | 6.80         | 7.29         | 7.71         | 8.03         | 7.80         |
| Less: Change in foreign exchange reserves | 0.80         | 0.40         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>16.00</b> | <b>17.40</b> | <b>18.65</b> | <b>20.29</b> | <b>22.44</b> | <b>24.30</b> | <b>26.84</b> |

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**Table B-7**  
**Malaysia***Billion US \$*

|   | 1984         | 1985         | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |              |              |              |              |              |              |              |
| Exports                                   | 16.32        | 16.52        | 17.81        | 19.44        | 21.34        | 22.93        | 25.07        |
| Plus: Gross borrowing                     | 4.41         | 5.26         | 5.58         | 5.87         | 6.23         | 6.63         | 7.03         |
| Plus: Other services balance              | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        |
| Less: Debt service                        | 3.57         | 3.88         | 4.39         | 4.90         | 5.41         | 5.86         | 6.27         |
| Less: Change in foreign exchange reserves | 0.36         | 0.20         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>14.10</b> | <b>15.00</b> | <b>16.30</b> | <b>17.71</b> | <b>19.46</b> | <b>21.00</b> | <b>23.13</b> |
| <b>Recession scenario</b>                 |              |              |              |              |              |              |              |
| Exports                                   | 16.32        | 16.52        | 17.58        | 18.67        | 20.52        | 22.04        | 24.10        |
| Plus: Gross borrowing                     | 4.41         | 5.26         | 5.58         | 5.87         | 6.23         | 6.63         | 7.03         |
| Plus: Other services balance              | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        | -2.70        |
| Less: Debt service                        | 3.57         | 3.88         | 4.39         | 4.90         | 5.41         | 5.86         | 6.27         |
| Less: Change in foreign exchange reserves | 0.36         | 0.20         | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>14.10</b> | <b>15.00</b> | <b>16.07</b> | <b>16.94</b> | <b>18.64</b> | <b>20.11</b> | <b>22.16</b> |

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**Table B-8**  
**Mexico***Billion US \$*

|   | 1984         | 1985         | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |              |              |              |              |              |              |              |
| Exports                                   | 24.10        | 22.50        | 22.72        | 23.95        | 25.40        | 26.91        | 28.91        |
| Plus: Gross borrowing                     | 9.98         | 9.11         | 7.69         | 9.78         | 10.76        | 12.19        | 12.82        |
| Plus: Other services balance              | 1.30         | -2.40        | 0.10         | 0.10         | 0.10         | 0.10         | 0.10         |
| Less: Debt service                        | 20.83        | 20.41        | 18.49        | 20.68        | 21.36        | 22.59        | 23.22        |
| Less: Change in foreign exchange reserves | 3.30         | -4.50        | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>11.25</b> | <b>13.30</b> | <b>12.02</b> | <b>13.15</b> | <b>14.90</b> | <b>16.61</b> | <b>18.61</b> |
| <b>Recession scenario</b>                 |              |              |              |              |              |              |              |
| Exports                                   | 24.10        | 22.50        | 22.59        | 23.75        | 25.18        | 26.53        | 28.45        |
| Plus: Gross borrowing                     | 9.98         | 9.11         | 7.69         | 9.78         | 10.76        | 12.19        | 12.82        |
| Plus: Other services balance              | 1.30         | -2.40        | 0.10         | 0.10         | 0.10         | 0.10         | 0.10         |
| Less: Debt service                        | 20.83        | 20.41        | 18.49        | 20.68        | 21.36        | 22.59        | 23.22        |
| Less: Change in foreign exchange reserves | 3.30         | -4.50        | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>11.25</b> | <b>13.30</b> | <b>11.89</b> | <b>12.95</b> | <b>14.68</b> | <b>16.23</b> | <b>18.15</b> |

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**Table B-9**  
**Nigeria***Billion US \$*

|   | 1984         | 1985        | 1986         | 1987         | 1988         | 1989         | 1990         |
|---|--------------|-------------|--------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |              |             |              |              |              |              |              |
| Exports                                   | 11.30        | 10.80       | 11.56        | 12.60        | 13.17        | 13.74        | 13.85        |
| Plus: Gross borrowing                     | 4.24         | 5.62        | 5.64         | 6.13         | 5.91         | 5.59         | 5.39         |
| Plus: Other services balance              | -1.80        | -1.80       | -1.80        | -1.80        | -1.80        | -1.80        | -1.80        |
| Less: Debt service                        | 3.54         | 5.53        | 4.73         | 5.05         | 4.60         | 4.02         | 3.76         |
| Less: Change in foreign exchange reserves | 0            | 0           | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>10.20</b> | <b>9.09</b> | <b>10.67</b> | <b>11.88</b> | <b>12.68</b> | <b>13.51</b> | <b>13.68</b> |
| <b>Recession scenario</b>                 |              |             |              |              |              |              |              |
| Exports                                   | 11.30        | 10.80       | 11.56        | 12.60        | 13.17        | 13.74        | 13.85        |
| Plus: Gross borrowing                     | 4.24         | 5.62        | 5.64         | 6.13         | 5.91         | 5.59         | 5.39         |
| Plus: Other services balance              | -1.80        | -1.80       | -1.80        | -1.80        | -1.80        | -1.80        | -1.80        |
| Less: Debt service                        | 3.54         | 5.53        | 4.73         | 5.05         | 4.60         | 4.02         | 3.76         |
| Less: Change in foreign exchange reserves | 0            | 0           | 0            | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>10.20</b> | <b>9.09</b> | <b>10.60</b> | <b>11.69</b> | <b>12.48</b> | <b>13.18</b> | <b>13.28</b> |

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**Table B-10**  
**Peru***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |             |
| Exports                                   | 3.15        | 3.12        | 3.35        | 3.65        | 3.99        | 4.32        | 4.65        |
| Plus: Gross borrowing                     | 3.30        | 2.85        | 2.98        | 3.15        | 3.04        | 3.22        | 3.41        |
| Plus: Other services balance              | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       |
| Less: Debt service                        | 3.80        | 3.42        | 3.46        | 3.51        | 3.26        | 3.54        | 3.68        |
| Less: Change in foreign exchange reserves | 0.20        | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>2.15</b> | <b>2.25</b> | <b>2.57</b> | <b>2.99</b> | <b>3.47</b> | <b>3.70</b> | <b>4.08</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |             |
| Exports                                   | 3.15        | 3.12        | 3.31        | 3.51        | 3.80        | 4.10        | 4.42        |
| Plus: Gross borrowing                     | 3.30        | 2.85        | 2.98        | 3.15        | 3.04        | 3.22        | 3.41        |
| Plus: Other services balance              | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       | -0.30       |
| Less: Debt service                        | 3.80        | 3.42        | 3.46        | 3.51        | 3.26        | 3.54        | 3.68        |
| Less: Change in foreign exchange reserves | 0.20        | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>2.15</b> | <b>2.25</b> | <b>2.53</b> | <b>2.85</b> | <b>3.28</b> | <b>3.48</b> | <b>3.85</b> |

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**Table B-11**  
**Philippines***Billion US \$*

|   | 1984        | 1985        | 1986        | 1987        | 1988        | 1989        | 1990        |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Baseline export growth</b>             |             |             |             |             |             |             |             |
| Exports                                   | 5.40        | 4.90        | 5.09        | 5.68        | 6.32        | 7.04        | 7.69        |
| Plus: Gross borrowing                     | 9.41        | 3.88        | 5.11        | 4.81        | 5.41        | 5.66        | 5.50        |
| Plus: Other services balance              | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        |
| Less: Debt service                        | 9.94        | 4.41        | 5.65        | 5.26        | 5.73        | 5.83        | 5.51        |
| Less: Change in foreign exchange reserves | -0.50       | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>6.07</b> | <b>5.07</b> | <b>5.25</b> | <b>5.93</b> | <b>6.70</b> | <b>7.57</b> | <b>8.38</b> |
| <b>Recession scenario</b>                 |             |             |             |             |             |             |             |
| Exports                                   | 5.40        | 4.90        | 4.95        | 5.23        | 5.85        | 6.54        | 7.13        |
| Plus: Gross borrowing                     | 9.41        | 3.88        | 5.11        | 4.81        | 5.41        | 5.66        | 5.50        |
| Plus: Other services balance              | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        | 0.70        |
| Less: Debt service                        | 9.94        | 4.41        | 5.65        | 5.26        | 5.73        | 5.83        | 5.51        |
| Less: Change in foreign exchange reserves | -0.50       | 0           | 0           | 0           | 0           | 0           | 0           |
| <b>Balance (import capacity)</b>          | <b>6.07</b> | <b>5.07</b> | <b>5.11</b> | <b>5.48</b> | <b>6.23</b> | <b>7.07</b> | <b>7.82</b> |

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**Table B-12**  
**Venezuela**

*Billion US \$*

|   | 1984        | 1985        | 1986        | 1987         | 1988         | 1989         | 1990         |
|---|-------------|-------------|-------------|--------------|--------------|--------------|--------------|
| <b>Baseline export growth</b>             |             |             |             |              |              |              |              |
| Exports                                   | 15.90       | 13.46       | 13.94       | 14.77        | 16.30        | 16.42        | 17.01        |
| Plus: Gross borrowing                     | 1.56        | 1.33        | 1.10        | 1.42         | 1.64         | 1.59         | 1.95         |
| Plus: Other services balance              | 0           | 0           | 0           | 0            | 0            | 0            | 0            |
| Less: Debt service                        | 8.16        | 5.72        | 5.49        | 5.91         | 6.13         | 6.18         | 6.54         |
| Less: Change in foreign exchange reserves | 2.10        | 1.80        | 0           | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>7.20</b> | <b>7.27</b> | <b>9.55</b> | <b>10.28</b> | <b>11.81</b> | <b>11.83</b> | <b>12.42</b> |
| <b>Recession scenario</b>                 |             |             |             |              |              |              |              |
| Exports                                   | 15.90       | 13.46       | 13.91       | 14.70        | 16.18        | 16.29        | 16.86        |
| Plus: Gross borrowing                     | 1.56        | 1.33        | 1.10        | 1.42         | 1.64         | 1.59         | 1.95         |
| Plus: Other services balance              | 0           | 0           | 0           | 0            | 0            | 0            | 0            |
| Less: Debt service                        | 8.16        | 5.72        | 5.49        | 5.91         | 6.13         | 6.18         | 6.54         |
| Less: Change in foreign exchange reserves | 2.10        | 1.80        | 0           | 0            | 0            | 0            | 0            |
| <b>Balance (import capacity)</b>          | <b>7.20</b> | <b>7.27</b> | <b>9.52</b> | <b>10.21</b> | <b>11.69</b> | <b>11.70</b> | <b>12.27</b> |

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